

The Zimdars Company, Inc.

TWO WAYS TO PROTECT YOURSELF & YOUR FAMILY BUSINESS IN THE EVENT OF A DISABILITY

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This article will offer you two simple and low cost steps to help maximize your protection in the event of a disability. In his January 2001 Family Business Center presentation, Attorney Mark Bradley indicated that the likelihood of a total disability is four times greater than death during your working years. However, disability planning and disability insurance receive much less attention than life and health insurance planning.

Two important steps for a family business to consider in disability planning are listed below:

1. Make sure your group disability insurance is designed to provide you and your employees with broad protection for both total and partial disabilities. Quality group disability insurance usually costs less than one-half of 1% of full-time family business payroll. It is possible to provide this benefit for certain classes of employees such as salaried employees, non-union employees, officers and managers, as long as 10 or more employees are insured.
2. Establish a written disability salary continuation agreement for shareholder employees. In the absence of a written agreement, tax rulings have held that payments to a disabled shareholder employee are non-deductible dividends rather than income tax deductible wages.

Some of the important considerations in group disability insurance include:

1. Provide long term disability insurance benefits payable to age 65 and beyond, not just short term disability insurance benefits.
2. Define covered compensation to include bonuses and S distribution income, not just basic earnings.
3. Provide an adequate maximum monthly long term disability insurance benefit (often \$7,000 -- \$10,000 per month). In many group insurance plans, the maximum monthly benefit has not been updated for years.
4. Provide good long term partial disability (zero-day residual) benefits. This benefit can help you avoid employee lawsuits.
5. Purchase coverage with a good long term disability insurance company. If you or your employees become disabled, you could be receiving payments from this company for many years.

Group disability insurance is available to you and your employees without medical evidence of insurability if 10 or more employees are insured.

There are several important considerations in a written salary continuation agreement. In addition to the tax advantages, this agreement clarifies the business obligations and the shareholder employee expectations in the event of their disability. Listed below are several questions to consider in the design of your disability salary continuation agreement.

1. How long will a salary be paid to a disabled shareholder employee?
2. Will the payments be based on full salary or some lesser percentage of salary?

3. Will the company's payments be reduced by any disability insurance, workers' compensation or social security benefits received?
4. Will the company continue to provide fringe benefits to the disabled shareholder employee?
5. Will the company provide any individual disability insurance for shareholder employees to supplement the company group disability insurance?

Disability planning is often overlooked. Inadequate disability planning can lead to major financial and tax problems, both for your business and the disabled employee and their family. Good group disability insurance and a well-written disability salary continuation agreement are very cost effective solutions to these problems.



John C. Zimdars, Jr., CLU has over 30 years experience in the life insurance industry. As an independent advisor to his clients, he has evaluated life insurance companies and their policies for three decades. His combination of experience and objectivity makes him well qualified to provide this needed service.

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